

REA response to Cutting the green customer confusion – next steps

Introduction

Renewables tariffs provide a great opportunity to harness consumer demand for renewables and it is a shame that confusion is obstructing this. We are pleased Ofgem is looking to address this and we are supportive of many of the proposals put forward in the consultation.

Below we have explained how we can see renewable and low carbon tariffs working. This includes much of what Ofgem is proposing but extends it further adding our ideas on how we think it could be more effective. Following this we have given specific answers to the questions posed in Appendix 2.

We were also very surprised to see the suggestion that biomass be put in band F, below coal and oil, for the purposes of displaying its CO₂ emissions. This is not consistent with Government practice and is extremely misleading. This is also discussed further below.

Summary of requests

Proposed by Ofgem and supported by REA

- Fuel mix disclosure for all tariffs (made mandatory)
- Use of REGOs to support renewable electricity claims (made mandatory)
- Consistent information provision across suppliers
- Additionality not a requirement and suppliers can charge more (increased transparency option)
- Extended to include non domestic consumers

Additional requests

- Monitoring and auditing of supplier claims (via an independent body)
- Enforcement (by Ofgem)
- Fuel mix disclosure to give actual fuel mix not last year's fuel mix
- Clear annual reporting of fuel mix
- Label biomass as zero carbon
- Compatibility with European labelling systems
- More analysis of the impact of imports
- Guidelines for renewable gas tariffs

REA view on renewable and low carbon tariffs

Background

The REA's viewpoint has changed substantially from previous responses. In earlier submissions, we expressed a strong preference for fund schemes and regarded additionality as an essential element of any offering. We favoured supporting renewable heat projects, as a means of getting around the "additionality" problem.

This view was held in response to the difficulties of interacting with the renewables obligation.

We had argued that in order for green consumerism to make a difference, emphasis should be placed on tariffs which were most effective at raising funds and spending the proceeds on new projects.

We now take the view that if double counting is avoided and all tariffs correctly account for the amount of renewable electricity available, then renewable electricity tariffs will be subject to more traditional market forces. A shortfall in supply should lead to an increase in price which should stimulate additional investment in renewables. The avoidance of double counting, and proper auditing of sales is therefore an essential pre-requisite of renewable tariffs.

Current view

We think the two most significant barriers to an effective market in renewable supply tariffs are:

- Double counting
- Lack of clear and accurate information to customers

We are pleased that the consultation recognises both of these issues. To remove these barriers it is important that any measures to address them are required of all suppliers and not voluntary. We can see no justification for companies to double count renewable electricity or provide inaccurate information.

We not only support Ofgem's proposals to only consider REGOs as the label for renewable electricity but think this is vital to avoid double counting. It is equally important Defra reflects this in its reporting guidelines for companies. A part of reducing confusion is to provide consistency between how companies are accounting and reporting on emissions and how suppliers sell renewable electricity. Any guidelines should take account of this wider context.

We agree with the emphasis on customer information but think it should go further particularly in relation to monitoring and auditing supplier claims.

Of the options given on additionality our views are most closely aligned with 'increased transparency'. We think the emphasis should be on honest, clear and easily accessible information provided to customers about the product being sold and less concerned about whether a product is 'additional' or not. This will make the role of auditing information and claims made by suppliers important. With proper information customers can then decide for themselves what they want from a tariff. This would not preclude suppliers offering fund or carbon offsetting schemes.

We are fully supportive of the guidelines covering non-domestic customers as well as domestic customers. We think it should also be acknowledged that the supply of renewable electricity includes:

- suppliers selling renewable electricity through the grid

- Bilateral contract between independent generators and consumers though still sold through a licensed supplier
- Generation owned by the consumer, located either on or offsite which could involve a contract with a licensed supplier

We would like similar guidelines to be introduced for renewable gas, though we recognise the absence of a labelling system like REGOs makes this more difficult. This is discussed further in Appendix 1.

European context

There is no mention of the European Commissions view on renewables labelling or other countries labelling systems. This can impact on imports of European Guarantees of Origin, future integration with Europe on renewable supply and how UK renewables targets are met. Drafts of the Renewable Energy Sources Directive refer to support certificates (eg Renewables Obligation Certificates) being linked to Guarantees of Origin. They also discuss trading of certificates in a way that suggests Guarantees of Origin are linked to European countries' renewables targets. This is in line with recommendations from the E-track project report published in August last year. This project is supported by the European Commission through the Intelligent Energy Europe Programme.

This European contexts needs to be investigated, understood and considered to ensure the UK system is compatible. It is possible the rules on electricity labelling could be standardised across Europe in the future. If the rules changed in a few years time, having a system in the UK completely at odds with the Europe would be counterproductive and cause confusion to customers. It would be much more helpful to have a system that moves towards this an integrated system. We urge Ofgem to discuss it's proposals with representatives from the European Commission.

Imports

If guarantees of origin are to be used as evidence of meeting a countries 2020 EU renewables target the supply of imports will be reasonably controlled. If not, there needs to be more consideration of how imported green certificates are treated. An uneven playing field across Europe this could cause a flood of REGOs into the UK market undermining the system of green labelling. A situation with high levels of renewable supply to all customers at little or no cost would not be accurate or achieve consumer confidence. If everyone thinks that they can get renewable supply this easily they may also be less inclined to reduce energy consumption.

Monitoring and auditing supplier claims

The context

We are suggesting that suppliers can put together whatever tariff they choose. The options a supplier could offer, range from 100% renewable supply plus a fund scheme to low carbon supply to standard supply plus carbon offsetting as well as many more combinations. The number of options available and translation of what they mean for renewables and carbon emissions make this a complex area where it

is easy to mislead. It is therefore important that information provided to customers is clear and accurate to allow them to make an informed product choice.

The provision of fuel mix disclosure information relating to each of a supplier's tariffs is essential. To make an informed choice a customer needs comparable information on the product they are buying, how that compares to other products and how their supplier compares to other suppliers. For example if a tariff is advertised as renewable being able to see the fuel mix as 100% renewable will show the customer that they are getting what they expect. It might also be important to customers that they purchase their tariff from a supplier that is 100% renewable, they will be able to see this information too. If a tariff is advertised as low carbon, knowing that this means it is 50% renewable 50% nuclear allows them to compare it to other low carbon tariffs. They may see one that is 70% renewable, 30% nuclear and decide they prefer that.

Reconciling fuel mix

In terms of the requirements to verify the fuel mix advertised, we think this should be backed up by fuel supplies that the customer will actually receive as opposed to what it would have received had it been on the tariff last year. The latter is misleading and could lead to gaming.

As suppliers could find it difficult to match sales of renewable electricity via renewables supply tariffs with renewable generation in a particular year we suggest a limited amount of borrowing from one year to the next is allowed. A reconciliation exercise would also be necessary to match individual company agreements with overall supplier mix. Both these aspects would benefit from auditing.

We understand that reconciling fuel mix that is not part of a renewable or low carbon tariff may be difficult because of the uncertainty over customer uptake of renewable or low carbon tariffs. Giving customers on renewable and low carbon tariffs an accurate account of what they are actually getting is necessary as it is likely the consumer has decided on the tariff because of the technology mix. If reconciliation is problematic for standard tariffs we suggest an estimate would provide a sufficient comparator. This would need to be reflective of the actual fuel mix but slight differences are unlikely to affect consumer choice. For standard tariffs the fuel mix of a standard tariff in the previous year would likely be sufficient.

The Standard Supply Licence Condition on fuel mix disclosure requires suppliers to provide customers with a retrospective calculation of fuel mix. This would provide customers who have signed up to a renewable or low carbon tariff with the evidence that the supplier has kept to its advertised fuel mix.

Auditing fuel mix

Suppliers' claims on fuel mix would need to be independently audited to provide confidence to consumers that the fuel mix reported is accurate. In addition we think that there should be an independent body auditing suppliers' claims about what a particular tariff is providing to customers. This could work through Ofgem appointing an independent body to carry out the monitoring and auditing which would report

to Ofgem on any anomalies. Ofgem would then be the enforcer of the rules, making a decision on any anomalies put to it by the independent body.

To make it clearer to suppliers and companies what they can claim about their tariffs it may be appropriate for the independent body to work with suppliers and the Advertising Standards Agency to suggest standard claims that could be made about particular types of tariffs.

Presentation of information

We support consistent presentation of information by suppliers. We agree that information should be made available to customers when they sign up to tariffs and on the website. We also think it should be made available in the annual reporting of fuel mix disclosure. We think the information on the website, on sign up and annually should be in a prominent place with the fuel mix and renewable content made clear.

Biomass emissions

We strongly believe that biomass should be labelled as zero carbon and it is extremely misleading to customers to put it in the worst possible carbon band. We understand the reason for doing this is because Ofgem does not consider it necessary to account for carbon taken in during the lifetime of a plant or animal. Not doing this provides an inaccurate presentation of the overall contribution of the fuel to global carbon emissions.

It is accepted practice in Government that the 'carbon neutrality' of biomass is taken into account. It is the Government's role and not Ofgem's to decide whether it is happy with the science behind biomass and its contribution to carbon emissions.

The consultation refers to the IPCC emissions figures as the reason for putting biomass in band F. The report¹ from which these figures are taken makes clear that:

"Biomass fuels are included in the national energy and emissions accounts for completeness. These emissions should not be included in national CO₂ emissions from fuel combustion." (emphasis added)

It follows that if emissions should not be included in national emissions they should not be included in consumers' emissions. The report also says that if it has caused a decline in long term forests this should be taken into account. This is reasonable.

Putting biomass in the lowest possible band tells consumers that biomass is worse than coal or oil for CO₂ emissions and climate change when in fact its overall impact on CO₂ emissions is that CO₂ emissions are avoided if biomass substitutes for fossil fuel use. Customers would start to wonder why the Government is even supporting biomass and think that there is uncertainty in Government policy over this, when

¹Revised 1996 IPCC Guidelines for National Greenhouse Gas Inventories:
Reference Manual- the relevant chapter link is: <http://www.ipcc-nggip.iges.or.jp/public/gl/guidelin/ch1ref1.pdf>

there isn't. Such misinformation and confusion goes against everything these guidelines are trying to achieve.

Specific answers to the questions

1. Do you think that the provision of greater information will empower customers to make more informed decisions regarding their preferences associated with supply tariffs, thereby providing an indication to suppliers of customer demand for renewable or low carbon forms of generation?

Yes, we agree this is vital, however, greater information will only be effective if information is easily accessible, clear and accurate. We also support Ofgem's statement that the information should be provided consistently across supply companies and should be provided prior to customers committing to enter into contracts. This information should include fuel mix information for the particular tariff they are signing up to and the suppliers fuel mix as a whole. We also think there should be annual reporting of fuel mix and information on the fuel mix of all tariffs should be made widely available.

We think making REGOs the only possible claim to renewable electricity will make clear what is and isn't green electricity. If claims are about particular technologies they should be substantiated by REGOs of that particular technology.

2. Do you consider it appropriate for the guidelines to be voluntary where companies 'sign up' to comply with both the guidelines and accreditation scheme?

No. It may be reasonable for certain aspects of the guidelines to be voluntary but other aspects rely on all suppliers being consistent. The use of REGOs not ROCs or LECs to demonstrate renewable supply should be mandatory. Suppliers marketing tariffs as renewable which are not substantiated by REGOs allows for double counting and confusion. The possibility of claiming the same MWh of electricity is renewable twice or even three times should not be kept open. This is where so much of the confusion is coming from.

The provision of accurate information should also be mandatory. The complexities surrounding the market and potential to mislead, even if unintentionally, make it important that suppliers' claims about tariffs are audited and monitored by an independent body. This should provide consumer confidence which can in turn strengthen demand for these tariffs.

3. Do you think that the guidelines, as currently drafted, are appropriate for non-domestic customers or would changes be required to facilitate this?

We don't agree with everything the guidelines say for domestic or non domestic consumers but we are happy that the same guidelines are used for domestic and non domestic consumers.

4. Do you think that the guidelines, as currently drafted, are useful for companies to market their corporate social responsibility?

We think it is important that Defra's reporting guidelines are updated to reflect Ofgem's guidelines and only renewable electricity backed by REGOs can be considered renewable. Similarly company claims about tariffs they are on should be audited by the independent body.

5. Do you consider that it is appropriate for separate sets of guidelines to be created for tariffs sourced from renewable generation and those sourced from non renewable low carbon generation?

Not necessarily, they should just be marketed using different names. The renewable content and fuel mix of any tariff should be made clear to the customer.

6. Do you think that it is appropriate for suppliers to provide information to customers regarding the contributions that they are already making to Government sponsored environmental programmes?

We don't think suppliers should be obliged to provide information on contributions to Government sponsored environmental programmes which we presume to mean the Renewables Obligation (RO) and the Carbon Emission Reductions Target (CERT). It should be for suppliers to decide whether to make this information available.

We think there are several issues in providing information to customers on Environmental Programmes. First, suppliers decide how much of the cost to pass onto customers it's not a clear cut figure. Second, a balanced view would also need to explain the reduction in costs to consumers from the programmes as well as the costs eg the lower bills resulting from 'A'-rated appliances sponsored by the supplier. Third, explaining environmental programmes only provides partial information on the costs faced by suppliers, generators and networks companies that are imposed, often rightfully, by Government or Ofgem. These include the European Union Emissions Trading Scheme, regulations on emissions, the Large Combustion Plant Directive and meeting Licence Conditions.

The most appropriate way of explaining what a tariff offers a consumer may be for the supplier to interpret how the policy environment affects the tariff offered. This may be more effective in getting the message across than to try to explain the intricacies of the RO or CERT and make the consumer interpret that for themselves.

7. Do you consider that information regarding the environmental benefits associated with 'green' supply tariffs should be provided to customers in a standardised format, and if so, what key information should be made available by suppliers to customers at the point of sale?

Absolutely. The key information should include the fuel mix and renewable content of the tariff and the fuel mix and renewable content of the supplier overall. It should also be clear where further information can be found about the fuel mix of the supplier's other tariffs. The types of tariffs available should also be clear eg standard, low carbon, standard renewable, renewable with carbon offset.

8. Should evidence of supply be linked to Fuel Mix Disclosure obligations, with the sub-division of renewable generation to identify a particular technology or source?

Yes.

We have no particular views about mandatory information on the sub-division of individual renewable technologies eg hydro, wind, though certainly if a tariff claims to support a particular technology the subdivision should be shown.

9. Should LECs be provided by suppliers in respect of renewable or low carbon tariffs where available?

For domestic supplies LECs should be surrendered.

For non domestic supplies it is less clear cut. If there is a chance a supplier or company receiving supplies with LECs but not REGOs could claim this meant they were getting renewable supplies then yes both should be together. Otherwise it may be preferable to separate them as they may command a higher price separately than together. Putting them together could also distort the REGO and LEC markets, for example companies with Climate Change Agreements would have to buy LECs to cover 100% of supplies rather than 20% of supplies if they wanted to claim 100% renewable supply.

The linking of support certificates to Guarantees of Origin is something the European Commission is looking at so Ofgem should look closely at the developments there to help move the UK system towards an integrated European system if it considers this likely.

10. What in your opinion would be the costs associated with the administration of a centrally administered 'green' fund?

Don't propose to answer.

11. Do you agree with our assessment of the 5 options available to measure additionality including BE's and Centrica's proposals?

Additionality is a grey area, it is almost impossible to say what would have happened in other circumstances and so whether anything is definitely additional or definitely not additional. Rather than getting too fixated on additionality, the focus should be more towards ensuring that supplier's claims about their products are reasonable and accurate. In some circumstances this could mean to use of the words 'may' and 'could' rather than 'will' or 'would' in promotional materials.

(1) ROC retirement – this relies on a significant enough price movement in ROCs to encourage further generation. Lead times for generation, planning and grid constraints make it questionable how much ROC price influences investment. When headroom is enacted the relationship between the supply of ROCs and ROC price will be broken. Banding - which technology to retire – also adds to the complexity. If suppliers went for ROC retirement they would need to be very careful in the claims made. Whilst ROC retirement provides consumer choice we think that the benefit is so unproven and the relationship between ROC retirement and investment is so complex, that the only thing allowing it can bring is confusion to the market.

We are not supportive of a star system at the moment. We think it's more important suppliers' claims are monitored in the context of a particular tariff rather than second guessing what is of most value to a consumer. The star system as suggested by Centrica demonstrates the difficulties of value judgements on which tariff is best. In our view there would need to be far more evidence on the effectiveness of ROC

retirement to warrant awarding more stars to this than carbon offsetting and renewable funds.

(2) *A centrally administered 'green' fund* - this has potential to provide an efficient allocation of investment into renewables from the premium paid by customers for renewable tariffs. It is attractive because it provides a consistent revenue stream to generators, applies standard rules to industry and can apply a standard additionality test. It could however stifle innovation in tariffs and reduce customer choice if it were a mandated approach. If suppliers choose to get together to do this we will support them, though having investigated this option with a number of suppliers who currently offer fund based tariffs we think this is unlikely at the moment.

(3) *A decentralised 'green' fund* - We agree with Ofgem's assessment that this would allow more innovation than a central fund but reduce transparency. We think an audit process would need to be in place to ensure claims eg about additionality could be substantiated. This could be part of the monitoring and auditing role of the independent body.

(4) *Improved transparency* - this is our favoured approach, though with caveats. Customers should be able to choose what they want provided they have the appropriate information. This can simply be the fuel mix disclosure of their tariff, all other supply tariffs and the supplier as a whole. This may have to be slightly altered for non domestic customers where individual contracts are negotiated. There should be emphasis on claims being made by suppliers about particular tariffs, for example, the ability of non additional tariffs to reduce carbon emissions or increase investment in renewables. Tariffs claiming to be additional should have these claims substantiated by an independent body.

A quality mark may be beneficial for monitoring additional tariffs, though we think monitoring and auditing claims is more important. A quality mark would not be necessary for non additional tariffs if it was made compulsory to use REGOs to back up renewables claims. In any case, a quality mark for a renewables tariff without additionality may be misleading.

(5) *Hybrid approach* - we are not supportive of this approach, it is an unnecessary distortion of the market that could restrict investment in renewables. If consumers want to be supplied by renewable energy and they are prepared to pay more for the privilege then suppliers should be permitted to set their prices accordingly. The price of renewable electricity over standard electricity could provide an important market signal to suppliers about consumer demand for renewables and their willingness to pay. It could also provide an extra source of income for renewables.

12. Do you think it is appropriate that renewable tariffs should comprise 100% renewable electricity or a stated percentage?

It depends how it's marketed. If it's less than 100% renewable that should be clear to any customer interested in the tariff. We think this is what's meant by alternative 2 and if so we support this. It is unclear how tariffs with a renewables content of less than 100% but higher than the standard percentage could be prevented if they were marketed appropriately.

We agree that information on the renewable content of a tariff should be both on the website and at point of sale. We think it should also be made available to customers annually. Whenever advertised we think it should be in a prominent place.

13. Is it appropriate to rate supply tariffs by their carbon intensity to allow an at-a-glance comparison of different offerings made by each supplier as well as competing tariffs across different suppliers?

Yes.

14. What is an appropriate treatment for electricity that is not supported by a REGO or generators declaration in order to calculate a tariff's emission intensity?

There are several ways this could be done. It may be most appropriate to use Berr's residual fuel mix for the moment. Another method could be to use grid mix excluding renewables and nuclear. This is because it is easier to account for renewables and nuclear generation in the fuel mix, and it is expected these will hold most value if consumers prefer low carbon generation.

In the longer term if more accurate methods to calculate generator emissions are available, which would not increase administrative burden on suppliers or generators, those methods should be used.

15. Is it appropriate to calculate carbon intensity using standardised emission factors at the point of generation, and recognising the lower emissions of certain technologies eg CCS and CHP?

Yes

16. Should CCS be treated as a low carbon technology or should the carbon sequestered be included in the calculation of emission intensity?

Don't propose to comment

17. Are the illustrative bands presented in this document appropriate? If not, how should they be amended?

No, the band for biomass is completely inappropriate, this is explained further above.

18. Who should be responsible for setting the low carbon bands?

The suppliers in discussion with the independent body for monitoring and auditing.

19. Should the bandings adjust over time to reflect a growing commitment to reduce the carbon intensity? Are the 2020 or 2050 targets the most appropriate basis on which to make these adjustments?

Don't propose to comment

20. Do you agree with our proposals to progress compliance with the guidelines and development of the accreditation scheme?

February 08 appears to be a very short timescale to fully consider responses to the consultation and deliver a set of guidelines taking into account points made in the

responses. We support the road testing of the guidelines but it seems premature to do this before the guidelines have been finalised.

Lead times for implementing fuel mix disclosure for non low carbon or renewables products should be provide enough time for suppliers to get their systems in place to provide this information.

21. Any other comments

We think that carbon offsetting should be in line with Defra's rules. We agree the use of offsetting should be excluded from the carbon ranking of the tariff, but could be presented alongside it. We think suppliers should be allowed to charge an additional premium for low carbon electricity if consumers are prepared to pay it.

Annex 1 – Renewable gas tariffs

The average household currently spends more on gas than it does on electricity. Environmental consumerism could therefore play a similar role in stimulating the uptake of renewable energy in the heat market as it does in the electricity market.

In some ways the concept of a renewable gas tariff is more straightforward, as there is no equivalent to the Renewables Obligation and thus no “additionality” argument to address.

On the other hand *renewable heat*, as a concept, is less familiar to the public. This is something the Renewable Energy Association would like to see change. Indeed it needs to change, as we address the demands of the new European 20% renewable energy target.

A true renewable gas supply tariff would require the principle of equivalence between natural gas and biogas. This would mean that biogas (from anaerobic digestion plants) could be purified and injected into the natural gas network and an equivalent amount sold under a renewable gas tariff.

Biogas is injected into the mains in Austria, Germany, Sweden and Switzerland and possibly in France and the Netherlands. In these countries this gas retains its “renewable” label if used elsewhere for electricity generation, fuelling vehicles or for renewable heat production. If used elsewhere commands an environmental premium, (eg claim the equivalent of ROCs).

Biogas can be injected into the UK gas distribution system, but it is not commercially viable, as the biogas loses its renewable credentials. The REA is seeking to address this anomaly. Equivalence in the treatment of biogas will facilitate renewable heat and transport fuel policies of the future, enable more environmentally rational use of resources and stimulate innovation.

Until this change is made, renewable gas *fund* schemes may be more appropriate. These could raise money for capital grants for renewable heat projects, or to pay a production tariff to producers of renewable heat. Under a production tariff, each metered MWh of heat supplied could be rewarded with a payment.

The REA hopes to raise awareness of the potential of renewable heat, and believes green consumerism could play an important role in the process.